



Health Services
LOS ANGELES COUNTY

December 24, 2013

**Los Angeles County
Board of Supervisors**

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

Christina R. Ghaly, M.D.
Deputy Director, Strategic Planning

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **NOTIFICATION OF DEPARTMENT OF HEALTH
SERVICES' USE OF DELEGATED AUTHORITY TO
EXECUTE AGREEMENTS AND AMENDMENTS
RELATED TO SUPPLEMENTAL MEDI-CAL
MANAGED CARE PAYMENTS**

This is to advise that the Department of Health Services (DHS) has exercised its delegated authority, approved by the Board on August 13, 2013 (attached), to execute agreements with the California Department of Health Care Services to make intergovernmental transfers (IGTs) and amendments to existing agreements with the Local Initiative Health Authority for Los Angeles County (L.A. Care) and Health Net of California, Inc. (Health Net) related to supplemental managed care payments to DHS for individuals enrolled in the Medi-Cal managed care program.

The total "rate range" IGTs and the administrative fee assessed on the rate range for the period October 1, 2011 through September 30, 2012 services is \$94.5 million. The total IGTs for the "SB 208 – Seniors and Persons with Disabilities" Medi-Cal managed care payment is \$14.7 million for the July 1, 2011 through September 30, 2012 period. These IGTs will be processed during December 2013 and the associated payments will be passed on to DHS from L.A. Care and Health Net in late January 2014 in total amount of approximately \$190.7 million.

If you have any questions or require additional information, please let me know.

MHK:AW:hr

Attachment

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

(W:\vice\RATES\Managed Care Rates-FYs 11-12 (9m) to 12-13(3m)\Board Notifications\Board Notification FFY 2011-12 Rate Range (12-20-13).doc)

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www.dhs.lacounty.gov

To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.

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The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**REQUEST FOR DELEGATED AUTHORITY TO EXECUTE
AGREEMENTS FOR SUPPLEMENTAL MEDI-CAL MANAGED CARE
PAYMENTS
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)**

SUBJECT

Request approval and delegation of authority to the Los Angeles County Department of Health Services to execute agreements with the California Department of Health Care Services to make two kinds of intergovernmental transfers that would fund supplemental Medi-Cal managed care rate increases and to pay the State for administering the program, and to execute amendments to existing agreements with the Local Initiative Health Authority for Los Angeles County and Health Net Community Solutions, Inc. to specify the terms related to the pass-through of the additional payments received as a result of the intergovernmental transfers to the California Department of Health Services.

IT IS RECOMMENDED THAT THE BOARD:

Delegate authority to the Director of Health Services, or his designee, to prepare and execute, on behalf of the County of Los Angeles, the following six agreements and/or amendments for the October 1, 2011 through September 30, 2012 period, for the "rate range" payments, and two agreements/amendments related the "S.B. 208" payment for the period July 1, 2011 through September 30, 2012, subject to review and approval by County Counsel and written notification to the Chief Executive Office and to the Board when the final agreements are executed:

1. An agreement with California Department of Health Care Services (DHCS) under which the Los Angeles County Department of Health Services (DHS) will make an intergovernmental transfer (IGT) of approximately \$58.3 million to fund "rate range" Medi-Cal

managed supplemental payments to Local Initiative Health Authority for Los Angeles County, doing business as L.A. Care Health Plan (L.A. Care), which will be passed on to DHS.

2. An agreement with DHCS to make an IGT of approximately \$20.4 million to fund "rate range" Medi-Cal managed care supplemental payments to Health Net Community Solutions, Inc., acting on behalf of Health Net of California (Health Net), which will be passed on to DHS.
3. A superseding agreement with DHCS which increases the IGT that DHS is committed to make from \$58.5 million to \$73.2 million to fund supplemental "S.B. 208" Medi-Cal managed care payments to L.A. Care in connection with services to seniors and persons with disabilities, which will be passed on to DHS.
4. Two agreements with DHCS to pay the State the administrative fee assessed on the rate range related IGT amounts going to L.A. Care and Health Net respectively, estimated at \$11.7 million for L.A. Care and \$4.1 million for Health Net, totaling \$15.8 million.
5. An amendment to the existing hospital service agreement with L.A. Care allowing it to make additional "rate range" related payments to DHS of approximately \$119.4 million, funded through the IGT.
6. An amendment to the existing agreement with Health Net allowing it to make additional "rate range" related payments to DHS of approximately \$41.9 million, funded through the IGT.
7. An amendment to the existing hospital service agreement with L.A. Care allowing it to increase the supplemental S.B. 208 related payments to DHS, funded by the IGT, by \$29.4 million, from \$81.2 million to \$110.6 million.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

The recommendations will allow the Director to: 1) enter into the agreements, substantially similar to Exhibits I and II, with DHCS, which allow DHS to forward IGTs to DHCS to be matched with federal funds. These IGTs provide the non-federal share of Medi-Cal supplemental payments to L.A. Care and Health Net, which will then be passed on to DHS, and are designed to increase the payments from the low end of actuarially sound rates to the high end of actuarially sound rates; 2) enter into a superseding agreement substantially similar to Exhibit III with DHCS which will allow DHS to send increased IGTs to the State pursuant to Welfare and Institutions Code Section 14182.15, added by S.B. 208, to supplement the Medi-Cal managed

care payments for services to seniors and persons with disabilities; 3) enter into agreements, substantially similar to Exhibits IV and V, with DHCS which provide for payment of an administrative fee; 4) enter into an amendment substantially similar to Exhibit VI, with L.A. Care, which authorizes it to pay to DHS supplemental rate range related payments of approximately \$119.4 million (net of the Managed Care Organization (MCO) taxes), funded through an IGT; 5) enter into an amendment substantially similar to Exhibit VII, with Health Net, to pay DHS supplemental rate range payments of approximately \$41.9 million (net of the MCO taxes), funded through an IGT; and 6) enter into an amendment with L.A. Care substantially similar to Exhibit VIII which authorizes it to increase the additional supplemental S.B. 208 related managed care payments by approximately \$29.4 million. Both L.A. Care and Health Net will be permitted to retain sufficient amounts to pay the MCO taxes assessed on all of the IGT funded supplemental payments. Health Net will also be permitted to retain an administrative fee of \$100,000.

Starting with the October 1, 2006 service period, the State and federal governments have approved a County-developed program to use IGTs to draw down federal revenues to fund higher rate range related payments under Medi-Cal managed care to DHS facilities. Under this program, which has recently been authorized for FFY 2011-12, L.A. Care and Health Net receive higher capitation rates which are funded by County IGTs. The two health plans will then pass on those additional payments, which include both local and federal matching funds, to the DHS providers.

A similar program was authorized by S.B. 208, although in that case, the additional Medi-Cal payments are used to assure that certain public entities can cover their costs of providing services to seniors and persons with disabilities.

To implement the rate range program for this year, three types of agreements are necessary. The first type of agreement is with DHCS and allows the County to make IGTs which DHCS commits to use to fund higher capitation rates for services to L.A. Care and Health Net enrollees for the period of October 1, 2011 through September 30, 2012. To the extent DHCS does not use all the IGT funds to make supplemental payments to L.A. Care and Health Net, the unused money will be returned to the County.

The second type of agreement is with DHCS and provides for DHS to pay DHCS a 20% administrative fee that is assessed on the full amount of the IGT. Payment of this administrative fee by entities wishing to participate in the program is required by Welfare & Institutions Code section 14301.4.

The third type of agreement is with L.A. Care and Health Net and is necessary to set the terms and conditions under which those entities pass on the IGT-funded supplemental payments they receive to the DHS providers.

Like the rate range IGTs, the program under S.B. 208 requires an agreement between the County and DHCS related to the payment and use of the IGT, and an agreement with L.A. Care to pass on the IGT funded supplemental payments. DHCS does not receive an administrative fee under S.B. 208.

The Centers for Medicare and Medicaid Services (CMS) must approve all Medi-Cal managed care rate increases and review all relevant documentation. Although CMS has approved the template that formed the basis for the draft agreements attached to this letter, it has not given final approval. Accordingly, additional changes may be required by CMS. If in the unlikely event that CMS requires material changes, we shall return to the Board to request a new delegation of authority. Otherwise, we shall notify the Board when the agreements are fully executed.

Implementation of Strategic Plan Goals

The recommended action(s) support Goal 4, Health and Mental Health of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

Approval of the recommended actions will allow DHS to make FFY 2011-12 IGT payments to DHCS for L.A. Care of approximately \$58.3 million for the rate range program and an additional \$14.7 million for the S.B. 208 program and for Health Net of approximately \$20.4 million and to receive payments from L.A. Care and Health Net of approximately \$148.8 million and \$41.9 million, respectively for services provided to Medi-Cal enrollees. In addition, it will allow DHS to pay DHCS the administrative fees of approximately \$15.8 million. Both health plans will retain the amounts necessary to pay the MCO taxes imposed on the payments made to the health plans. Health Net is permitted to retain an additional administrative fee of \$100,000.

The payments received from L.A. Care and Health Net under both the rate range and S.B. 208 programs must be used by the DHS facilities to which they are allocated to pay for health care services; no part of such payments may be distributed to the County's general fund or used by other County entities. Funding for the IGTs and the associated revenues are included in DHS' Fiscal Year 2012-13 Final Budget. Any funding gap will be addressed in the closing budget adjustment.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Since August 19, 2008, the Board has authorized DHS to execute similar agreements with DHCS to make IGTs and have the State make supplemental managed care payments to our contracted health plans, i.e., L.A. Care and Health Net, under the rate range program. Those agreements covered FFY 2006-07 through FFY 2010-11. The agreements require DHS to certify that the transferred funds qualify for federal financial participation, and do not constitute improper "recycling" of Medicaid funds.

In 2010 the Legislature passed S.B. 208, which allows public entities to provide the non-federal share of supplemental payments that are designed to assure that designated public hospitals and their affiliated providers receive the same amount under Medi-Cal managed care for seniors and persons with disabilities as they would under fee for service Medi-Cal. On April 16, 2013, your Board authorized the County's participation in this program and the necessary appropriation adjustment to fund the IGTs. The superseding agreement and the amendment to the L.A. Care agreement recommended here would increase the amount received by DHS under that program for the July 1, 2011 through September 30, 2012 service period.

The County does not receive managed care payments directly from the State; rather, DHCS contracts with L.A. Care and Health Net, which then subcontract for services with various provider networks, including DHS providers. Accordingly, in order to receive the benefit of the IGT funded payments, DHS must execute amendments to its agreements with L.A. Care and Health Net. Those amendments stipulate that the health plans will pay over to DHS the full amount of the IGT funded supplemental payments they receive, except for Health Net's administrative fee of \$100,000 and the amounts necessary to pay the MCO tax imposed on the payments made to both of the health plans.

The amendments contain an indemnification clause requiring DHS to hold L.A. Care and/or Health Net harmless for any losses they incur as a result of the receipt of IGT funded supplemental payments under both the rate range and S.B. 208 programs. Further, as consideration for the amendment to its agreement with Health Net, DHS has agreed to continue to keep certain services available. In the case of L.A. Care, it has agreed not to exercise its right to terminate the contract for an extra 60 days.

DHCS has imposed a short time frame for the completion of these payments. To meet that time frame and to expedite receipt of these supplemental funds, DHS is requesting delegation of authority from the Board to execute the DHCS, L.A. Care and Health Net agreements and amendments.

The Honorable Board of Supervisors
August 13, 2013
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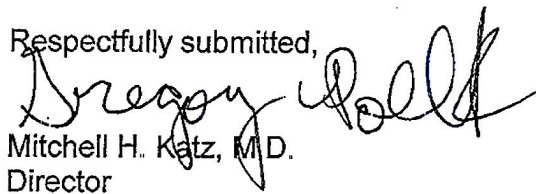
CONTRACTING PROCESS

Advertising on the County's Online Website is not applicable.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There is no impact on current services as a result of this authorization. However, approval of this action will allow DHS to increase federal revenue sources and meet revenue projections included in the DHS Fiscal Outlook.

Respectfully submitted,



Mitchell H. Katz, M.D.
Director

MHK:ANW:hr

Enclosures (8)

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors